

## CHAPTER 2

### TYPES OF GOVERNMENT AUDITS AND ATTESTATION ENGAGEMENTS

#### INTRODUCTION

**2.1** This chapter describes the types of audits and attestation engagements that audit organizations perform, or arrange to have performed, of government, programs,<sup>1</sup> and of government assistance administered by contractors, nonprofit entities, and other nongovernment entities. This description is not intended to limit or require the types of audits or attestation engagements that may be performed or arranged to be performed. In performing work described below in accordance with generally accepted government auditing standards (GAGAS), auditors should follow the applicable standards included and incorporated in chapters 3 through 8. This chapter also describes other professional services that audit organizations provide, although these services are not covered by GAGAS.

**2.2** All assignments begin with objectives, and those objectives determine the type of work to be performed and the audit standards to be followed. The types of work, as defined by their objectives that are covered by GAGAS, are classified in these standards as financial audits, attestation engagements, and performance audits.

**2.3** Assignments may have a combination of objectives that include more than one type of work described in this chapter or may have objectives limited to only some aspects of one type of work. Auditors should follow the standards that are applicable to the individual objectives of the audit or attestation engagement.

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<sup>1</sup>The term “program” is used to include entities, services, and activities.

## FINANCIAL AUDITS

**2.4** Financial audits primarily concern providing reasonable assurance about whether financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP),<sup>2</sup> or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits may include

- a.** providing special reports for specified elements, accounts, or items of a financial statement;
- b.** reviewing interim financial information or segments of financial statements;
- c.** issuing letters for underwriters and certain other requesting parties;
- d.** reporting on the processing of transactions by service organizations; and
- e.** auditing compliance with regulations relating to governmental financial assistance.

**2.5** Financial audits are performed under the American Institute of Certified Public Accountants' (AICPA) generally accepted auditing standards for field work and reporting, as well as the related AICPA Statements on Auditing Standards (SASs) which interpret the standards and provide guidance on conducting such work.<sup>3</sup> Accordingly, auditors performing financial audits need to be proficient in applying the AICPA standards and guidance contained in the SASs. GAGAS prescribe general standards and

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<sup>2</sup>Three authoritative bodies for generally accepted accounting principles (GAAP) are the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the Federal Accounting Standards Advisory Board (FASAB). GASB establishes accounting principles and financial reporting standards for state and local government entities. FASB establishes accounting principles and financial reporting standards for nongovernment entities. FASAB promulgates accounting principles and financial reporting standards for the federal government.

<sup>3</sup>GAGAS incorporate all AICPA field work and reporting auditing standards and the related SASs unless the Comptroller General of the United States excludes them by formal announcement. To date, the Comptroller General has not excluded any AICPA field work or reporting auditing standards or any SASs.

additional field work and reporting requirements beyond those provided by the AICPA when performing financial audits. (See chapters 3, 4, and 5 for standards and guidance for auditors performing a financial audit in accordance with GAGAS.)

## ATTESTATION ENGAGEMENTS

**2.6** Attestation engagements concern examining, reviewing, or performing agreed upon procedures on a subject matter or an assertion<sup>4</sup> about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or nonfinancial objectives and can be part of a financial audit or other type of audit. Examples of objectives of attestation engagements include reporting on

- a.** an entity's internal control over financial reporting;
- b.** an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- c.** the effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- d.** management's discussion and analysis (MD&A) presentation;
- e.** prospective financial statements or pro forma financial information;

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<sup>4</sup>An assertion is any declaration or set of declarations about whether the subject matter is based on or in conformity with the criteria selected.

- f. the reliability of performance measures;
- g. final contract cost; and
- h. allowability and reasonableness of proposed contract amounts.<sup>5</sup>

**2.7** Attestation engagements are performed under the AICPA's attestation standards, as well as the related AICPA Statements on Standards for Attestation Engagements (SSAEs) which interpret the standards and provide guidance on conducting such work.<sup>6</sup> Accordingly, auditors performing attestation engagements need to be proficient in applying the AICPA standards and guidance contained in the SSAEs. GAGAS prescribe general standards and additional field work and reporting requirements beyond those provided by the AICPA for attestation engagements. (See chapters 3 and 6 for standards and guidance for auditors performing an attestation engagement in accordance with GAGAS.)

## PERFORMANCE AUDITS

**2.8** A performance audit is an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria or an assessment of best practices and other information. Performance audits provide information to improve program operations and facilitate decisionmaking by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of

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<sup>5</sup>Some of these examples of attestation engagement objectives are similar to some of the performance audit objectives listed in paragraphs 2.9 through 2.11. Depending on user needs and the auditor's qualifications, the auditor may choose to apply performance audit standards in chapters 7 and 8 to the objectives in paragraph 2.6 instead of following the attestation standards in chapter 6.

<sup>6</sup>GAGAS incorporate the AICPA's general attestation standard on criteria and all the AICPA's field work and reporting attestation standards and the related SSAEs unless the Comptroller General of the United States excludes them by formal announcement. To date, the Comptroller General has not excluded any AICPA field work or reporting attestation standards or SSAEs.

objectives including objectives related to assessing program effectiveness and results; economy and efficiency; internal control;<sup>7</sup> and compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. Performance audits also may encompass a broad or narrow scope of work and a variety of methodologies; involve a level of analysis, research, or evaluation; generally provide conclusions and recommendations; and result in a report. (See chapters 3, 7, and 8 for standards and guidance for auditors performing a performance audit in accordance with GAGAS.)

**2.9** Program effectiveness and results audit objectives address the effectiveness of a program and typically measure the extent to which a program is achieving its goals and objectives. Economy and efficiency audit objectives concern whether an entity is acquiring, protecting, and using its resources in the most productive manner to achieve program objectives. These audit objectives are often interrelated and may be concurrently addressed in a performance audit. Examples of program effectiveness and results and economy and efficiency audit objectives include assessing

- a.** the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- b.** the relative utility of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- c.** the relative cost and benefits or cost effectiveness of program performance;<sup>8</sup>
- d.** whether a program produced intended results or produced effects that were not intended by the program's established or stated objectives;

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<sup>7</sup>The term internal control in this document is synonymous with the term management control and, unless otherwise stated, covers all aspects of an entity's operations (programmatic, financial, and compliance).

<sup>8</sup>These objectives focus on combining cost information with information about outputs or the benefit provided, and outcomes or the results achieved.

- e.** the extent to which programs duplicate, overlap, or conflict with other related programs;
- f.** whether the audited entity is following sound procurement practices;
- g.** the validity and reliability of performance measures concerning program effectiveness and results, or economy and efficiency; and
- h.** the financial information related to the performance of a program.

**2.10** Internal control audit objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance. Examples of audit objectives related to internal control include the extent that internal controls of a program provide reasonable assurance that

- a.** organizational missions, goals, and objectives are achieved effectively and efficiently;
- b.** resources are used in compliance with laws, regulations, or other requirements;
- c.** resources are safeguarded against unauthorized acquisition, use, or disposition;
- d.** management information and public reports that are produced, such as performance measures, are complete, accurate, and consistent to document performance and support decisionmaking;
- e.** security over computerized information systems will prevent or detect unauthorized access; and

**f.** contingency planning for information systems provides essential back-up to prevent unwarranted disruption of activities and functions the systems support.

**2.11** Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements<sup>9</sup> that could affect the acquisition, protection, and use of the entity's resources, and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives also concern the purpose of the program, the manner in which it is to be conducted and services delivered, and the population it serves.

**2.12** Audit organizations are increasingly undertaking work that is similar to the traditional performance audit but may have a prospective focus or may provide guidance, best practice information, or information on cross-cutting issues already studied or under study by an audit organization. While this work generally does not involve assessing specific ongoing programs, it may use data from relevant audit work for comparative or baseline purposes. This performance-related work may encompass a broad or narrow range of objectives and scope of work; use a variety of methodologies; involve a level of analysis, research, or evaluation; generally provide conclusions and recommendations; and result in a report. It is also subject to the same standards as performance audits. Examples of objectives pertaining to this work include

**a.** assessing program or policy alternatives, including forecasting program outcomes under various assumptions;

**b.** assessing the advantages and disadvantages of legislative proposals;

**c.** conducting surveys to obtain and analyze views of stakeholders on policy proposals for decisionmakers;

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<sup>9</sup> Compliance requirements can be either financial or nonfinancial in nature.

- d.** analyzing budget proposals or budget requests to assist legislatures in the budget process;
- e.** developing methods or approaches for use in evaluating new or proposed programs;
- f.** producing a high-level summary or a report that affects multiple programs or entities on issues studied or under study by the audit organization; and
- g.** developing guidance documents such as those based on best practices research and syntheses for management's use in evaluating program or management system approaches, including financial and information management systems.<sup>10</sup>

#### NONAUDIT SERVICES OF AUDIT ORGANIZATIONS

**2.13** Audit organizations may also provide nonaudit services that are not covered by GAGAS. These nonaudit services consist of gathering, providing, or explaining information requested by decision makers or providing advice or assistance to management officials. Nonaudit services generally differ from financial audits, attestation engagements, and performance audits described above in that auditors provide information or data to a requesting party without providing verification, analysis, or evaluation of the information or data, and therefore the work does not usually provide a basis for conclusions, recommendations, or opinions on the information or data. These other services may or may not result in a report. Some examples of these other professional services include

- a.** assisting a legislative body by developing questions for use at a hearing;
- b.** gathering and reporting unverified external or third-party data to aid legislative and administrative decision making;

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<sup>10</sup>These guidance documents may also be used by auditors in planning and performing their work.



- c. compiling or reviewing financial statements or other information to assist entities and management officials;<sup>11</sup>
- d. advising an entity regarding its performance of internal control self-assessments;
- e. providing professional advice to entities and management officials to assist them in activities such as the design or installation of information systems and related internal control activities;
- f. valuing an entity's pension, other postemployment benefit, or other similar liabilities;
- g. preparing an entity's indirect cost proposal or cost allocation plan;
- h. providing human resource services to assist management in its evaluation of potential candidates; and
- i. development of audit methodologies, policies, and procedures.

**2.14** GAGAS do not cover nonaudit services described in this chapter as such services are not audits or attestation engagements. Therefore, auditors should not report that such services were conducted in accordance with GAGAS. However, audit organizations are encouraged to establish policies for maintaining the quality of this type of work, and may wish to disclose in any product resulting from this work, any other professional standards followed and the quality control steps taken.

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<sup>11</sup>This type of work is covered under the AICPA's Statements on Standards for Accounting and Review Services (SSARS), which are not incorporated into GAGAS since the work covered by the SSARS are not considered audits.